Chapter 1, Section 1

**What is economics?**

Definition

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Microeconomics

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Macroeconomics

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Why is economics important?

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**Scarcity**

Definition

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Needs vs. Wants

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Individual vs. Government Role in Coping with Scarcity

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**Shortage**

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**What is the difference between scarcity and shortage?**

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**Chapter 1, Section 2 and Chapter 14, Section 1-3**

**Trade-offs**

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***“Choosing is Refusing”***

**Opportunity Cost**

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**The Guns or Butter Decision**

Our Role in Funding the Government

* We authorize the government, through the Constitution and elected officials, to raise money through taxes.
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* Without revenue, or income from taxes, government would not be able to provide goods and services.

**The Power and Limits of Taxation**

The Power to Tax

* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
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Limits on the Power to Tax

* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
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Tax Structures

* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Types of Taxes**

Social Security Taxes

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Medicare Taxes

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Unemployment Taxes

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Other Taxes

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**Characteristics of a “Good” Tax**

* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
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**Spending Categories**

Mandatory Spending

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Discretionary Spending

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**How does the budget process work?**

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**What is the budget timeline?**

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### **Chapter 1, Section 3:**

### **Production Possibility Graphs**

**Production Possibilities Graph**:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ The graph can only consider two items at once and these items are each placed on an axis.

**Production Possibilities Frontier**: The \_\_\_\_\_\_\_\_\_\_\_on a production possibilities graph that shows an economy’s maximum possible output of any \_\_\_\_\_\_\_\_\_\_\_\_ products.

#### What can we learn from looking at a Production Possibilities Graph/Frontier?

* **Opportunity Cost-** Alternative given up as a result of a decision. Every point on the PPF indicates a cost in on item or another.
* **Efficiency-** \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_(any point on the PPF)
* **Underutilization/Inefficiency-** \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (any point inside the PPF)
* **Growth-** \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_(shift of the entire curve to the right or any point to the right of the PPF)
* **New \_\_\_\_\_\_\_\_\_\_\_\_\_/\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**
* **Increase in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Draw and label the following example:**

Imagine an economy that can produce only wine and cotton. According to the PPF, points A, B and C—all appearing on the curve—represent the most efficient use of resources by the economy. Point X represents an underutilization or inefficient use of resources, while point Y represents goals that the economy cannot attain with its present levels of resources. To reach point Y the economy would have to grow through innovation in technology or the discovery of resources.